

# AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

|  |                                     |  |                                 |
|--|-------------------------------------|--|---------------------------------|
| Local Government Type:<br><input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other |                                     | Local Government Name:<br><u>East Bay Charter Township</u>           | County<br><u>Grand Traverse</u> |
| Audit Date<br><u>December 31, 2004</u>   | Opinion Date<br><u>May 25, 2005</u> | Date Accountant Report Submitted To State:<br><u>August 12, 2005</u> |                                 |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

| We have enclosed the following:                                     | Enclosed                            | To Be Forwarded          | Not Required                        |
|---|-------------------------------------|--------------------------|-------------------------------------|
| The letter of comments and recommendations.                         | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/>            |
| Reports on individual federal assistance programs (program audits). | <input type="checkbox"/>            | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| Single Audit Reports (ASLGU).                                       | <input type="checkbox"/>            | <input type="checkbox"/> | <input checked="" type="checkbox"/> |

|  |                              |                    |                     |
|--|------------------------------|--------------------|---------------------|
| Certified Public Accountant (Firm Name): <b>PLANTE &amp; MORAN, PLLC</b> |                              |                    |                     |
| Street Address<br><u>511 Renaissance Drive Suite 120</u>                 | City<br><u>Benton Harbor</u> | State<br><u>MI</u> | ZIP<br><u>49085</u> |
| Accountant Signature<br><br><i>Plante &amp; Moran, PLLC</i>              |                              |                    |                     |

**Charter Township of East Bay  
Grand Traverse County, Michigan**

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**Financial Report  
with Supplemental Information  
December 31, 2004**

# Charter Township of East Bay

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## Independent Auditor's Report

To the Township Board  
Charter Township of East Bay

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of East Bay as of and for the year ended December 31, 2004, which collectively comprise the Charter Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter Township of East Bay, Grand Traverse County, Michigan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Township has not maintained adequate accounting records and has experienced alleged instances of fraud during the year ended December 31, 2004; as a result, we were unable to apply procedures to determine the proper balance of special assessment receivables and proper classification of expenditures.

Since the Township did not maintain adequate accounting records, experienced alleged instances of fraud, and because we were unable to satisfy ourselves about the receivable balance related to special assessments and proper expenditure classification, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements as of and for the year ended December 31, 2004.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Township Board  
Charter Township of East Bay

As described in Note I, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of January 1, 2004.

*Plante & Moran, PLLC*

May 25, 2005

# **Charter Township of East Bay**

## **Management's Discussion and Analysis**

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Our discussion and analysis of the Charter Township of East Bay, Grand Traverse County, Michigan's (the "Township") financial performance provides an overview of the Township's financial activities for the fiscal year ended December 31, 2004. Please read it in conjunction with the Township's financial statements.

### **Financial Highlights**

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended December 31, 2004:

- State-shared revenue, our largest revenue source, was reduced by the State of Michigan by approximately \$50,000 this year.
- Total net assets related to the Township's governmental activities decreased by approximately \$63,000.
- The fund balance in the General Fund decreased by approximately \$182,000, resulting in a deficit fund balance of approximately \$48,000.
- The Township completed the addition to the Township Hall by entering into an installment purchase agreement for approximately \$415,000.
- The Township adopted Governmental Accounting Standards Board Statement No. 34 during the year. This resulted in a decrease in net assets at January 1, 2004 of \$928,000.

### **Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds.

# Charter Township of East Bay

## Management's Discussion and Analysis (Continued)

### The Township as a Whole

The following table shows, in a condensed format, the net assets as of December 31, 2004. In future years, when prior year information is available, comparative data will be presented.

|   | Governmental<br>Activities | Business-type<br>Activities | Total                      |
|---|----------------------------|-----------------------------|----------------------------|
| <b>Assets</b>                                       |                            |                             |                            |
| Current assets                                      | \$ 1,566,934               | \$ 1,935,814                | \$ 3,502,748               |
| Noncurrent assets                                   | <u>2,564,549</u>           | <u>13,961,439</u>           | <u>16,525,988</u>          |
| Total assets  | 4,131,483                  | 15,897,253                  | 20,028,736                 |
| <b>Liabilities</b>                                  |                            |                             |                            |
| Current liabilities                                 | 1,128,620                  | 787,445                     | 1,916,065                  |
| Long-term liabilities                               | <u>364,787</u>             | <u>7,864,212</u>            | <u>8,228,999</u>           |
| Total liabilities                                   | <u>1,493,407</u>           | <u>8,651,657</u>            | <u>10,145,064</u>          |
| <b>Net Assets</b>                                   |                            |                             |                            |
| Invested in capital assets - Net of<br>related debt | 548,017                    | 5,535,560                   | 6,083,577                  |
| Restricted  | 409,628                    | -                           | 409,628                    |
| Unrestricted  | <u>1,680,431</u>           | <u>1,710,036</u>            | <u>3,390,467</u>           |
| Total net assets                                    | <u><b>\$ 2,638,076</b></u> | <u><b>\$ 7,245,596</b></u>  | <u><b>\$ 9,883,672</b></u> |

The Township's combined net assets decreased 1 percent from a year ago - decreasing from \$9,999,325 to \$9,883,672. As we look at the governmental activities separately from the business-type activities, we can see that the net assets of the governmental activities increased by \$47,000 and net assets of business-type activities decreased by \$163,000.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - increased by \$66,000 for the governmental activities. This represents an increase of approximately 4 percent. The current level of unrestricted net assets for our governmental activities stands at \$1,680,431, or about 85 percent, of expenditures.

# Charter Township of East Bay

## Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets during 2004. In future years, when prior year information is available, comparative data will be presented.

|                                    | Governmental<br>Activities | Business-type<br>Activities | Total               |
|------------------------------------|----------------------------|-----------------------------|---------------------|
| <b>Revenue</b>                     |                            |                             |                     |
| Program revenue:                   |                            |                             |                     |
| Charges for services               | \$ 366,520                 | \$ 1,471,501                | \$ 1,838,021        |
| Operating grants and contributions | 14,871                     | 9,736                       | 24,607              |
| General revenue:                   |                            |                             |                     |
| Property taxes                     | 929,818                    | -                           | 929,818             |
| State-shared revenue               | 658,056                    | -                           | 658,056             |
| Unrestricted investment earnings   | 7,925                      | 6,746                       | 14,671              |
| Franchise fees                     | 38,072                     | -                           | 38,072              |
| Transfers and other revenue        | 8,982                      | -                           | 8,982               |
| Total revenue                      | 2,024,244                  | 1,487,983                   | 3,512,227           |
| <b>Program Expenses</b>            |                            |                             |                     |
| General government                 | 980,665                    | -                           | 980,665             |
| Public safety                      | 769,611                    | -                           | 769,611             |
| Public works                       | 132,569                    | -                           | 132,569             |
| Recreation and culture             | 79,357                     | -                           | 79,357              |
| Interest on long-term debt         | 14,823                     | -                           | 14,823              |
| Water and sewer                    | -                          | 1,650,855                   | 1,650,855           |
| Total program expenses             | 1,977,025                  | 1,650,855                   | 3,627,880           |
| <b>Change in Net Assets</b>        | <b>\$ 47,219</b>           | <b>\$ (162,872)</b>         | <b>\$ (115,653)</b> |

### Governmental Activities

The Township's revenue sharing decreased by approximately \$50,000. Property tax revenue increased by approximately \$54,000.

The Township incurred increases in expenditures in the following areas: health care costs, professional services, contract labor, and payroll. These expenditures were slightly offset by a reduction in maintenance and repairs.



# **Charter Township of East Bay**

## **Management's Discussion and Analysis (Continued)**

### **Business-type Activities**

The Township's business-type activities consist of the Water and Sewer Fund. The Grand Traverse County Department of Public Works (GTDPW) provides water services to the residents of Grand Traverse County, including East Bay Charter Township. GTDPW bills the residents for these services and passes the related funds on to the Township. Revenue and expenses from the sale of water was \$719,000 and \$378,000, respectively, in 2004.

The Township entered into a master sewer agreement with the City of Traverse City and various townships in Grand Traverse and Leelanau Counties, as well as Grand Traverse County. This master sewer agreement defines the allocation of costs and establishes certain rights and responsibilities with respect to the wastewater treatment plant. Grand Traverse County is the owner of the treatment plant and the City of Traverse City is the owner of all the multi-user facilities. The Township pays an amount sufficient to cover its pro rata share of treatment plant costs, as determined by its volume of sewage treated in relation to total sewage treated at the plant. The Township's revenue and expenses from sewage disposal was \$730,000 and \$361,000, respectively, in 2004.

Additional costs incurred in relation to both water and sewer included depreciation expense of \$374,000 and interest expense of \$452,000. In total, expenses exceeded revenue for the combined Water and Sewer Fund by \$163,000.

### **The Township's Funds**

Our analysis of the Township's major funds begins on page 10, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Township as a whole. The Township board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Township's major funds for 2004 include the General Fund, the Fire Fund, and the Township Improvement Fund.

### **General Fund Budgetary Highlights**

Actual revenue was \$223,000 less than budgeted revenue. The shortfalls were primarily in state sources and charges for services. Actual expenditures were \$48,000 less than budgeted. The expenditure reductions made by the Township did not cover the shortfall in revenue and therefore, fund balance was \$175,000 less than budgeted at December 31, 2004.

### **Capital Asset and Debt Administration**

At the end of 2004, the Township had \$15,668,000 invested in a broad range of capital assets, including buildings, ambulance, fire, compactor equipment, and water and sewer lines. In addition, the Township has invested significantly in roads within the Township. These assets are not reported in the Township's financial statements because of Michigan law, which makes these roads the property of the Grand Traverse County Road Commission (along with the responsibility to maintain them).

# **Charter Township of East Bay**

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## **Management's Discussion and Analysis (Continued)**

### **Economic Factors and Next Year's Budgets**

The Township's General Fund budget for next year calls for \$1,400,000 in both revenue and expenditures. Increases in revenue were budgeted for both state sources and property taxes. A decrease in the township hall and grounds expenditure budget was offset by an increase in both roads and capital outlay.

### **Contacting the Township's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

### **Identification of Alleged Fraud**

During 2005, alleged fraud was discovered in the clerk's office that impacted the 2004 financial results. The investigation is ongoing and final damages or possible recoveries are not estimable at this time.

Management and the board have taken many steps to strengthen the internal controls of the Township. However, the problems encountered in 2004 will continue to impact 2005, as significant time and effort will be invested in resolving these issues. The Township is committed to strengthening controls, protecting the residents' assets, and obtaining reliable financial information on a timely basis.

# Charter Township of East Bay

## Statement of Net Assets December 31, 2004

|  | Primary Government  |                     |                     |
|--|---------------------|---------------------|---------------------|
|  | Governmental        | Business-type       |                     |
|  | Activities          | Activities          | Total               |
| <b>Assets</b>                                    |                     |                     |                     |
| Cash and investments (Note 3)                    | \$ 331,588          | \$ 925,707          | \$ 1,257,295        |
| Receivables:                                     |                     |                     |                     |
| Property taxes                                   | 1,005,107           | 893,538             | 1,898,645           |
| Intergovernmental                                | 110,482             | 162,517             | 272,999             |
| Interest and other                               | 73,809              | -                   | 73,809              |
| Internal balances (Note 6)                       | 45,948              | (45,948)            | -                   |
| Investment in joint venture (Note 10)            | 858,000             | -                   | 858,000             |
| Capital assets - Nondepreciable (Note 5)         | 768,104             | -                   | 768,104             |
| Capital assets - Depreciable - Net (Note 5)      | 938,445             | 13,961,439          | 14,899,884          |
| <b>Total assets</b>                              | <b>4,131,483</b>    | <b>15,897,253</b>   | <b>20,028,736</b>   |
| <b>Liabilities</b>                               |                     |                     |                     |
| Accounts payable                                 | 47,945              | 116,846             | 164,791             |
| Accrued and other liabilities                    | 48,476              | 169,564             | 218,040             |
| Deferred revenue (Note 4)                        | 1,006,558           | -                   | 1,006,558           |
| Noncurrent liabilities (Note 7):                 |                     |                     |                     |
| Due within one year                              | 25,641              | 501,035             | 526,676             |
| Due in more than one year                        | 364,787             | 7,864,212           | 8,228,999           |
| <b>Total liabilities</b>                         | <b>1,493,407</b>    | <b>8,651,657</b>    | <b>10,145,064</b>   |
| <b>Net Assets</b>                                |                     |                     |                     |
| Invested in capital assets - Net of related debt | 548,017             | 5,535,560           | 6,083,577           |
| Restricted for:                                  |                     |                     |                     |
| Fire and ambulance services                      | 326,458             | -                   | 326,458             |
| Township improvements                            | 83,170              | -                   | 83,170              |
| Unrestricted                                     | 1,680,431           | 1,710,036           | 3,390,467           |
| <b>Total net assets</b>                          | <b>\$ 2,638,076</b> | <b>\$ 7,245,596</b> | <b>\$ 9,883,672</b> |

# Charter Township of East Bay

## Statement of Activities Year Ended December 31, 2004

|   | Program Revenues           |                            |  | Net (Expense) Revenue and<br>Changes in Net Assets |                             |                            |
|---|----------------------------|----------------------------|--|--|-----------------------------|----------------------------|
|   | Expenses                   | Charges for<br>Services    | Operating<br>Grants and<br>Contributions | Primary Government                                 |                             |                            |
|   |                            |                            |  | Governmental<br>Activities                         | Business-type<br>Activities | Total                      |
| <b>Functions/Programs</b>                     |                            |                            |  |  |                             |                            |
| Primary government:                           |                            |                            |  |  |                             |                            |
| Governmental activities:                      |                            |                            |  |  |                             |                            |
| General government                            | \$ 980,665                 | \$ 144,648                 | \$ -                                     | \$ (836,017)                                       | \$ -                        | \$ (836,017)               |
| Public safety                                 | 769,611                    | 73,119                     | -  | (696,492)  | -                           | (696,492)                  |
| Public works                                  | 132,569                    | 130,199                    | -  | (2,370)  | -                           | (2,370)                    |
| Recreation and culture                        | 79,357                     | 18,554                     | 14,871                                   | (45,932)   | -                           | (45,932)                   |
| Interest on long-term debt                    | 14,823                     | -                          | -  | (14,823)   | -                           | (14,823)                   |
| Total governmental activities                 | <u>1,977,025</u>           | <u>366,520</u>             | <u>14,871</u>                            | <u>(1,595,634)</u>                                 | <u>-</u>                    | <u>(1,595,634)</u>         |
| Business-type activities - Water<br>and sewer | <u>1,650,855</u>           | <u>1,471,501</u>           | <u>9,736</u>                             | <u>-</u>   | <u>(169,618)</u>            | <u>(169,618)</u>           |
| Total primary government                      | <u><b>\$ 3,627,880</b></u> | <u><b>\$ 1,838,021</b></u> | <u><b>\$ 24,607</b></u>                  | <u>(1,595,634)</u>                                 | <u>(169,618)</u>            | <u>(1,765,252)</u>         |
| General revenues:                             |                            |                            |  |  |                             |                            |
| Property taxes                                |                            |                            |  | 929,818  | -                           | 929,818                    |
| State-shared revenues                         |                            |                            |  | 658,056  | -                           | 658,056                    |
| Unrestricted investment earnings              |                            |                            |  | 7,925  | 6,746                       | 14,671                     |
| Franchise fees                                |                            |                            |  | 38,072   | -                           | 38,072                     |
| Miscellaneous                                 |                            |                            |  | 8,982  | -                           | 8,982                      |
| Total general revenues                        |                            |                            |  | <u>1,642,853</u>                                   | <u>6,746</u>                | <u>1,649,599</u>           |
| <b>Change in Net Assets</b>                   |                            |                            |  | 47,219   | (162,872)                   | (115,653)                  |
| <b>Net Assets</b> - Beginning of year         |                            |                            |  | <u>2,590,857</u>                                   | <u>7,408,468</u>            | <u>9,999,325</u>           |
| <b>Net Assets</b> - End of year               |                            |                            |  | <u><b>\$ 2,638,076</b></u>                         | <u><b>\$ 7,245,596</b></u>  | <u><b>\$ 9,883,672</b></u> |

# Charter Township of East Bay

## Governmental Funds Balance Sheet December 31, 2004

|                                      | General Fund      | Fire Fund           | Township<br>Improvement<br>Fund | Nonmajor<br>Governmental<br>Fund - Budget<br>Stabilization | Total<br>Governmental<br>Funds |
|--------------------------------------|-------------------|---------------------|---------------------------------|--|--------------------------------|
| <b>Assets</b>                        |                   |                     |                                 |  |                                |
| Cash and investments (Note 3)        | \$ 200            | \$ 148,218          | \$ 83,170                       | \$ 100,000   | \$ 331,588                     |
| Receivables:                         |                   |                     |                                 |  |                                |
| Property taxes                       | 272,903           | 732,204             | -                               | -  | 1,005,107                      |
| Intergovernmental                    | 110,482           | -                   | -                               | -  | 110,482                        |
| Interest and other                   | 58,633            | 15,176              | -                               | -  | 73,809                         |
| Due from other funds (Note 6)        | 45,948            | 174,724             | -                               | -  | 220,672                        |
| Total assets                         | <u>\$ 488,166</u> | <u>\$ 1,070,322</u> | <u>\$ 83,170</u>                | <u>\$ 100,000</u>  | <u>\$ 1,741,658</u>            |
| <b>Liabilities and Fund Balances</b> |                   |                     |                                 |  |                                |
| <b>Liabilities</b>                   |                   |                     |                                 |  |                                |
| Accounts payable                     | \$ 39,759         | \$ 8,186            | \$ -                            | \$ -   | \$ 47,945                      |
| Accrued and other liabilities        | 48,476            | -                   | -                               | -  | 48,476                         |
| Due to other funds (Note 6)          | 174,724           | -                   | -                               | -  | 174,724                        |
| Deferred revenue (Note 4)            | 272,904           | 735,678             | -                               | -  | 1,008,582                      |
| Total liabilities                    | 535,863           | 743,864             | -                               | -  | 1,279,727                      |
| <b>Fund Balances</b>                 |                   |                     |                                 |  |                                |
| Reserved for:                        |                   |                     |                                 |  |                                |
| Fire and ambulance services          | -                 | 326,458             | -                               | -  | 326,458                        |
| Township improvements                | -                 | -                   | 83,170                          | -  | 83,170                         |
| Unreserved, reported in:             |                   |                     |                                 |  |                                |
| General Fund                         | (47,697)          | -                   | -                               | -  | (47,697)                       |
| Designated - Budget stabilization    | -                 | -                   | -                               | 100,000  | 100,000                        |
| Total fund balances                  | (47,697)          | 326,458             | 83,170                          | 100,000  | 461,931                        |
| Total liabilities and fund balances  | <u>\$ 488,166</u> | <u>\$ 1,070,322</u> | <u>\$ 83,170</u>                | <u>\$ 100,000</u>  |                                |

Amounts reported for governmental activities in the statement of net assets are different because:

|  |                     |
|--|---------------------|
| Capital assets used in governmental activities are not financial resources and are not reported in the funds                                 | 1,706,549           |
| Joint venture investments used in governmental activities are not financial resources and are not reported in the funds                      | 858,000             |
| Charges for services receivables are expected to be collected over several years, and are not available to pay for current year expenditures | 2,024               |
| Long-term liabilities are not due and payable in the current period and are not reported in the funds  | (390,428)           |
| Net assets of governmental activities  | <u>\$ 2,638,076</u> |

# Charter Township of East Bay

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) Year Ended December 31, 2004

|  | General Fund       | Fire Fund         | Township<br>Improvement<br>Fund | Nonmajor<br>Governmental<br>Fund - Budget<br>Stabilization | Total<br>Governmental<br>Funds |
|--|--------------------|-------------------|---------------------------------|--|--------------------------------|
| <b>Revenue</b>                                     |                    |                   |                                 |  |                                |
| Property taxes                                     | \$ 258,049         | \$ 671,769        | \$ -                            | \$ -   | \$ 929,818                     |
| Licenses and permits                               | 9,204              | -                 | -                               | -  | 9,204                          |
| State-shared revenues                              | 658,056            | -                 | -                               | -  | 658,056                        |
| Charges for services                               | 283,446            | 71,095            | -                               | -  | 354,541                        |
| Franchise fees                                     | -                  | -                 | 38,072                          | -  | 38,072                         |
| Interest and rentals                               | 2,247              | 4,732             | 946                             | -  | 7,925                          |
| Other  | 24,443             | 161               | -                               | -  | 24,604                         |
| Total revenue                                      | 1,235,445          | 747,757           | 39,018                          | -  | 2,022,220                      |
| <b>Expenditures</b>                                |                    |                   |                                 |  |                                |
| General government                                 | 635,306            | -                 | -                               | -  | 635,306                        |
| Public safety                                      | 252,361            | 544,119           | -                               | -  | 796,480                        |
| Public works                                       | 117,254            | -                 | -                               | -  | 117,254                        |
| Recreation and culture                             | 53,548             | -                 | -                               | -  | 53,548                         |
| Insurance and other                                | 343,887            | -                 | 2,128                           | -  | 346,015                        |
| Capital outlay                                     | 15,482             | 117,313           | 379,323                         | -  | 512,118                        |
| Debt service                                       | -                  | -                 | 39,660                          | -  | 39,660                         |
| Total expenditures                                 | 1,417,838          | 661,432           | 421,111                         | -  | 2,500,381                      |
| <b>Excess of Revenue Over (Under) Expenditures</b> | (182,393)          | 86,325            | (382,093)                       | -  | (478,161)                      |
| <b>Other Financing Sources</b> - Issuance of debt  | -                  | -                 | 415,265                         | -  | 415,265                        |
| <b>Net Change in Fund Balances</b>                 | (182,393)          | 86,325            | 33,172                          | -  | (62,896)                       |
| <b>Fund Balances</b> - Beginning of year           | 134,696            | 240,133           | 49,998                          | 100,000  | 524,827                        |
| <b>Fund Balances (Deficit)</b> - End of year       | <u>\$ (47,697)</u> | <u>\$ 326,458</u> | <u>\$ 83,170</u>                | <u>\$ 100,000</u>  | <u>\$ 461,931</u>              |

# Charter Township of East Bay

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## Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) of Governmental Funds to the Statement of Activities Year Ended December 31, 2004

**Net Change in Fund Balances - Total Governmental Funds** **\$ (62,896)**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

|   |           |
|---|-----------|
| Current year capital additions          | 512,118   |
| Current year allocation of depreciation | (126,599) |

|  |       |
|--|-------|
| Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (GASB No. 33) | 2,024 |
|--|-------|

|   |         |
|---|---------|
| Investment in joint venture income reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds | 113,000 |
|---|---------|

|   |        |
|---|--------|
| Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) | 24,837 |
|---|--------|

|  |                  |
|--|------------------|
| Bond proceeds are not reported as financing sources on the statement of activities | <u>(415,265)</u> |
|--|------------------|

**Change in Net Assets of Governmental Activities** **\$ 47,219**

# Charter Township of East Bay

## Proprietary Funds Statement of Net Assets December 31, 2004

|   | Enterprise Fund-<br>Water and<br>Sewer Fund |
|---|---|
| <b>Assets</b>   |   |
| Current assets:   |   |
| Cash and cash equivalents   | \$ 925,707                                  |
| Receivables:  |   |
| Special assessments   | 893,538                                     |
| Intergovernmental   | <u>162,517</u>                              |
| Total current assets  | 1,981,762                                   |
| Noncurrent assets - Capital assets                                  | <u>13,961,439</u>                           |
| Total assets  | 15,943,201                                  |
| <b>Liabilities</b>  |   |
| Current liabilities:  |   |
| Accounts payable  | 116,846                                     |
| Accrued and other liabilities                                       | 169,564                                     |
| Due to other funds  | 45,948                                      |
| Current portion of long-term debt                                   | <u>501,035</u>                              |
| Total current liabilities   | 833,393                                     |
| Noncurrent liabilities - Long-term debt - Net of current<br>portion | <u>7,864,212</u>                            |
| Total liabilities   | <u>8,697,605</u>                            |
| <b>Net Assets</b>   |   |
| Investment in capital assets - Net of related debt                  | 5,535,560                                   |
| Unrestricted  | <u>1,710,036</u>                            |
| Total net assets  | <u><u>\$ 7,245,596</u></u>                  |



# Charter Township of East Bay

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended December 31, 2004

|                                       | Enterprise Fund-<br>Water and<br>Sewer Fund |
|---------------------------------------|---|
| <b>Operating Revenue</b>              |   |
| Sale of water                         | \$ 719,404                                  |
| Sewage disposal charges               | 730,386                                     |
| Installation fees                     | 21,711                                      |
| Grants - State and local              | 9,736                                       |
| Total operating revenue               | 1,481,237                                   |
| <b>Operating Expenses</b>             |   |
| Cost of water produced/purchased      | 378,279                                     |
| Cost of sewage treatment              | 361,053                                     |
| Depreciation                          | 374,107                                     |
| Other                                 | 85,631                                      |
| Total operating expenses              | 1,199,070                                   |
| <b>Operating Income</b>               | 282,167                                     |
| <b>Nonoperating Revenue (Expense)</b> |   |
| Investment income                     | 6,746                                       |
| Interest expense                      | (451,785)                                   |
| <b>Change in Net Assets</b>           | (162,872)                                   |
| <b>Net Assets - Beginning of year</b> | 7,408,468                                   |
| <b>Net Assets - End of year</b>       | <u><u>\$ 7,245,596</u></u>                  |

# Charter Township of East Bay

## Proprietary Funds Statement of Cash Flows Year Ended December 31, 2004

|  | Enterprise Fund-<br>Water and<br>Sewer Fund |
|--|---|
| <b>Cash Flows from Operating Activities</b>                                      |   |
| Receipts from customers  | \$ 1,437,183                                |
| Payments to suppliers  | (784,075)                                   |
| Internal activity - Payments from other funds                                    | 45,948                                      |
| Other receipts   | <u>118,668</u>                              |
| Net cash provided by operating activities  | 817,724                                     |
| <b>Cash Flows from Capital and Related Financing Activities</b>                  |   |
| Collection of customer assessments (principal and interest)                      | 229,996                                     |
| Purchase of capital assets   | (154,013)                                   |
| Proceeds from sale of capital assets   | 67,876                                      |
| Principal and interest paid on capital debt                                      | <u>(929,459)</u>                            |
| Net cash used in capital and related financing activities                        | (785,600)                                   |
| <b>Cash Flows from Investing Activities - Interest received on investments</b>   | <u>6,746</u>                                |
| <b>Net Increase in Cash and Cash Equivalents</b>                                 | 38,870                                      |
| <b>Cash and Cash Equivalents - Beginning of year</b>                             | <u>886,837</u>                              |
| <b>Cash and Cash Equivalents - End of year</b>                                   | <b><u>\$ 925,707</u></b>                    |
| <b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>  |   |
| Operating income   | \$ 282,167                                  |
| Adjustments to reconcile operating income to net cash from operating activities: |   |
| Depreciation and amortization  | 374,107                                     |
| Changes in assets and liabilities:   |   |
| Receivables  | (34,318)                                    |
| Accounts payable   | <u>195,768</u>                              |
| Net cash provided by operating activities  | <b><u>\$ 817,724</u></b>                    |

# Charter Township of East Bay

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## **Fiduciary Funds Statement of Assets and Liabilities December 31, 2004**

|  |                            |
|--|----------------------------|
|  | <u>Agency Funds</u>        |
| <b>Assets</b> - Cash and cash equivalents            | <u><u>\$ 1,461,484</u></u> |
| <b>Liabilities</b> - Due to other governmental units | <u><u>\$ 1,461,484</u></u> |

# Charter Township of East Bay

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## Notes to Financial Statements December 31, 2004

### **Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the Charter Township of East Bay (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Charter Township of East Bay:

#### **Reporting Entity**

The Charter Township of East Bay is governed by an elected seven-member board. The accompanying financial statements present the Township.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

# Charter Township of East Bay

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## Notes to Financial Statements December 31, 2004

### Note 1 - Summary of Significant Accounting Policies (Continued)

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and claims and judgments are recorded only when payment is due.

The Township reports the following major governmental funds:

**General Fund** - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Fire Fund** - The Fire Fund accounts for the operation of the Township fire department and ambulance services. Financing is provided by a special property tax levy.

**Township Improvement Fund** - The Township Improvement Fund is to account for the accumulation of funds for other public improvements. Financing is provided by an advance from the General Fund, tower revenues, and earned interest.

# Charter Township of East Bay

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**Notes to Financial Statements  
December 31, 2004**

## **Note 1 - Summary of Significant Accounting Policies (Continued)**

The Township reports the following major proprietary fund:

**Water and Sewer Funds** - The Water and Sewer Fund is used to account for the results of operations that provide water and sewer services to residents, financed primarily by a user charge for the provision of those services.

Additionally, the Township reports the following fund type:

**Agency Funds** - The Agency Funds account for assets held by the Township in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Township has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's water and sewer function and various other functions of the Township. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

# Charter Township of East Bay

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## Notes to Financial Statements December 31, 2004

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

#### **Property Tax Revenue**

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Township's 2003 tax is levied and collectible on December 1, 2003 and is recognized as revenue in the year ended December 31, 2004, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2003 taxable valuation of the Township totaled \$329,387,000, on which taxes levied consisted of 0.775 mills for operating purposes. The millage for fire and ambulance services of 2.15 mills is levied on a taxable valuation of \$312,069,500 (real property only). This resulted in \$258,049 for operating and \$671,769 for fire and ambulance services. These amounts are recognized in the respective General and Special Revenue Funds financial statements as tax revenue.

#### **Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

# Charter Township of East Bay

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## Notes to Financial Statements December 31, 2004

### Note 1 - Summary of Significant Accounting Policies (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

|                                     |                |
|-------------------------------------|----------------|
| Utility system                      | 50 years       |
| Buildings and building improvements | 40 to 50 years |
| Vehicles                            | 3 to 5 years   |
| Office furnishings and equipment    | 3 to 7 years   |

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.



# Charter Township of East Bay

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## Notes to Financial Statements December 31, 2004

### Note 1 - Summary of Significant Accounting Policies (Continued)

#### Accounting and Reporting Changes

**GASB Statement No. 34** - In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The Township has applied the provisions of this statement in the accompanying financial statements (including the notes to the financial statements). Certain significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the Township's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the Township's activities
- A change in the fund financial statements to focus on major funds
- Capital assets as of December 31, 2003, previously reported in the General Fixed Assets Account Group, have been adjusted by approximately \$1,113,000 to reflect the historical cost of the Township's capital assets at that date.
- Accumulated depreciation was recorded for the fixed assets previously reported in the General Fixed Assets Account Group of approximately \$560,000.
- The Township's equity interest in the Grand Traverse County fire department - Metro Division joint venture was recorded as an investment of \$745,000.

### Note 2 - Stewardship, Compliance, and Accountability

**Noncompliance with Legal or Contractual Provisions** - The Township board had not adopted a resolution regarding credit card uses as of December 31, 2004 as required by the State of Michigan.

**Fund Deficits** - The Township has an accumulated fund balance deficit in the General Fund of \$47,696.

# Charter Township of East Bay

## Notes to Financial Statements December 31, 2004

### Note 2 - Stewardship, Compliance, and Accountability (Continued)

**Construction Code Fees** - The Township oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

|  |                   |
|--|-------------------|
| Accumulated balance at January 1, 2004 | \$ -              |
| Current year building permit revenue   | 9,204             |
| Related expenses - Direct costs        | <u>(13,459)</u>   |
| Total construction code expenses       | <u>\$ (4,255)</u> |

### Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The Township has designated two banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above.

The Charter Township of East Bay's deposits and investment policies are in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

|                           | Governmental<br>Activities | Business-type<br>Activities | Fiduciary<br>Funds | Total Primary<br>Government |
|---------------------------|----------------------------|-----------------------------|--------------------|-----------------------------|
| Cash and cash equivalents | \$ 331,588                 | \$ 925,707                  | \$ 1,461,484       | \$ 2,718,779                |

# Charter Township of East Bay

## Notes to Financial Statements December 31, 2004

### Note 3 - Deposits and Investments (Continued)

The breakdown between deposits and investments for the Township is as follows:

|   | <u>Primary<br/>Government</u> |
|---|-------------------------------|
| Bank deposits (checking accounts, savings accounts, and<br>certificates of deposit) | \$ 2,590,538                  |
| Interlocal agreement investment pool funds  | 128,041                       |
| Petty cash or cash on hand  | <u>200</u>                    |
| Total   | <u>\$ 2,718,779</u>           |

#### Deposits

The bank balance of the Township's deposits is \$1,220,917, of which \$300,000 is covered by federal depository insurance. The remainder was uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits Township funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

#### Investments

The Township's investments during the year consisted solely of interlocal agreement investment pool funds. There was \$128,041 invested in such funds of the primary government and fiduciary funds at December 31, 2004. Investments are normally categorized to give an indication of the level of risk assumed by the Township; however, these funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The Township believes that the investments in these funds comply with the investment authority noted above.

### Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned.

# Charter Township of East Bay

## Notes to Financial Statements December 31, 2004

### Note 4 - Deferred Revenue (Continued)

|                      | Governmental Funds |                     |                     | Governmental<br>Activities |
|----------------------|--------------------|---------------------|---------------------|----------------------------|
|                      | Unavailable        | Unearned            | Total               | Unearned                   |
| Property taxes       | \$ -               | \$ 1,005,108        | \$ 1,005,108        | \$ 1,005,108               |
| Charges for services | 2,024              | 1,450               | 3,474               | 1,450                      |
| Total                | <u>\$ 2,024</u>    | <u>\$ 1,006,558</u> | <u>\$ 1,008,582</u> | <u>\$ 1,006,558</u>        |

### Note 5 - Capital Assets

Capital asset activity of the Township's governmental and business-type activities was as follows:

|                                       | Balance<br>January 1, 2004 | Reclassifications | Additions         | Balance<br>December 31,<br>2004 |
|---------------------------------------|----------------------------|-------------------|-------------------|---------------------------------|
| <b>Governmental Activities</b>        |                            |                   |                   |                                 |
| Capital assets not being depreciated: |                            |                   |                   |                                 |
| Land                                  | \$ 768,104                 | \$ -              | \$ -              | \$ 768,104                      |
| Construction in progress              | 111,745                    | (111,745)         | -                 | -                               |
| Subtotal                              | 879,849                    | (111,745)         | -                 | 768,104                         |
| Capital assets being depreciated:     |                            |                   |                   |                                 |
| Buildings and improvements            | 561,944                    | 111,745           | 394,798           | 1,068,487                       |
| Vehicles                              | 174,315                    | -                 | 105,954           | 280,269                         |
| Office furnishings and tools          | 264,634                    | -                 | 11,366            | 276,000                         |
| Subtotal                              | 1,000,893                  | 111,745           | 512,118           | 1,624,756                       |
| Accumulated depreciation:             |                            |                   |                   |                                 |
| Buildings and improvements            | 248,666                    | -                 | 31,117            | 279,783                         |
| Vehicles                              | 122,021                    | -                 | 56,054            | 178,075                         |
| Office furnishings and tools          | 189,025                    | -                 | 39,428            | 228,453                         |
| Subtotal                              | 559,712                    | -                 | 126,599           | 686,311                         |
| Net capital assets being depreciated  | 441,181                    | 111,745           | 385,519           | 938,445                         |
| Net capital assets                    | <u>\$ 1,321,030</u>        | <u>\$ -</u>       | <u>\$ 385,519</u> | <u>\$ 1,706,549</u>             |

# Charter Township of East Bay

## Notes to Financial Statements December 31, 2004

### Note 5 - Capital Assets (Continued)

|   | Balance<br>January 1, 2004 | Additions           | Disposals and<br>Adjustments | Balance<br>December 31,<br>2004 |
|---|----------------------------|---------------------|------------------------------|---------------------------------|
| <b>Business-type Activities</b>   |                            |                     |                              |                                 |
| Capital assets being depreciated - Water and sewer distribution systems | \$ 17,515,594              | \$ 154,013          | \$ (67,876)                  | \$ 17,601,731                   |
| Accumulated depreciation - Water and sewer distribution systems         | 3,266,185                  | 374,107             | -                            | 3,640,292                       |
| Net capital assets  | <u>\$ 14,249,409</u>       | <u>\$ (220,094)</u> | <u>\$ (67,876)</u>           | <u>\$ 13,961,439</u>            |

Depreciation expense was charged to programs of the Township as follows:

Governmental activities:

|                        |               |
|------------------------|---------------|
| General government     | \$ 28,626     |
| Public safety          | 61,144        |
| Public works           | 12,799        |
| Recreation and culture | <u>24,030</u> |

|                               |                   |
|-------------------------------|-------------------|
| Total governmental activities | <u>\$ 126,599</u> |
|-------------------------------|-------------------|

Business-type activities:

|       |                |
|-------|----------------|
| Water | \$ 207,858     |
| Sewer | <u>166,249</u> |

|                                |                   |
|--------------------------------|-------------------|
| Total business-type activities | <u>\$ 374,107</u> |
|--------------------------------|-------------------|

### Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

| Receivable Fund                | Payable Fund         | Amount            |
|--------------------------------|----------------------|-------------------|
| <b>Due to/from Other Funds</b> |                      |                   |
| General Fund                   | Water and Sewer Fund | \$ 45,948         |
| Fire Fund                      | General Fund         | <u>174,724</u>    |
| Total                          |                      | <u>\$ 220,672</u> |

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made. The balance owing from the General Fund to the Water and Sewer Fund resulted from a loan made for working capital purposes.

# Charter Township of East Bay

## Notes to Financial Statements December 31, 2004

### Note 7 - Long-term Debt

The Township issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Township. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the Township is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity can be summarized as follows:

|   | Interest<br>Rate<br>Ranges | Principal<br>Maturity<br>Ranges | Beginning<br>Balance | Additions  | (Reductions) | Ending Balance | Due Within<br>One Year |
|---|----------------------------|---------------------------------|----------------------|------------|--------------|----------------|------------------------|
| <b>Governmental Activities</b>  |                            |                                 |                      |            |              |                |                        |
| Installment purchase agreements -<br>Township Hall agreement<br>Amount of issue: \$415,265<br>Maturing through: December 2010   | 3.70%                      | \$25,641 -<br>\$221,483         | \$ -                 | \$ 415,265 | \$ (24,837)  | \$ 390,428     | \$ 25,641              |
| <b>Business-type Activities</b>   |                            |                                 |                      |            |              |                |                        |
| Contractual obligations with Grand Traverse County:<br>1991 Water and Sanitary Sewer Extension #1 Special<br>Assessment<br>Amount of issue: \$1,330,000<br>Maturing through: November 1, 2011 | 6.37%                      | \$70,000 -<br>\$95,000          | \$ 655,000           | \$ -       | \$ (65,000)  | \$ 590,000     | \$ 70,000              |
| 1991 Water and Sanitary Sewer Extension #2 Special<br>Assessment<br>Amount of issue: \$210,000<br>Maturing through: July 1, 2011  | 4.77%                      | \$10,000 -<br>\$15,000          | 90,000               | -          | (15,000)     | 75,000         | 10,000                 |
| Sewage Disposal System Series 1994<br>Amount of issue: \$210,000<br>Maturing through: November 1, 2013  | 6.04%                      | \$10,000 -<br>\$15,000          | 120,000              | -          | (10,000)     | 110,000        | 15,000                 |
| Sewage Disposal System Series 2002<br>Amount of issue: \$800,000<br>Maturing through: May 1, 2023   | 4.08%                      | \$30,000 -<br>\$60,000          | 770,000              | -          | (30,000)     | 740,000        | 30,000                 |
| Sewage Disposal System Bonds Series 1993<br>Amount of issue: \$925,000<br>Maturing through: November 1, 2012  | 5.00%                      | \$55,000 -<br>\$80,000          | 575,000              | -          | (50,000)     | 525,000        | 55,000                 |
| Sewage Disposal System Bonds Series 1995<br>Amount of issue: \$3,725,000<br>Maturing through: May 1, 2015   | 2.62%                      | \$15,033 -<br>\$30,065          | 222,756              | -          | (14,309)     | 208,447        | 15,032                 |
| Sewage Disposal System Bonds Series 1998<br>Amount of issue: \$1,565,000<br>Maturing through: May 1, 2013   | 3.58%                      | \$8,740 -<br>\$13,340           | 116,133              | -          | (8,740)      | 107,393        | 8,740                  |

# Charter Township of East Bay

## Notes to Financial Statements December 31, 2004

### Note 7 - Long-term Debt (Continued)

|  | Interest<br>Rate<br>Ranges | Principal<br>Maturity<br>Ranges | Beginning<br>Balance | Additions | (Reductions) | Ending Balance | Due Within<br>One Year |
|--|----------------------------|---------------------------------|----------------------|-----------|--------------|----------------|------------------------|
| <b>Business-type Activities (Continued)</b>        |                            |                                 |                      |           |              |                |                        |
| Sewage Disposal System Bonds Series 2002           |                            |                                 |                      |           |              |                |                        |
| Amount of issue: \$32,900,000                      |                            | \$42,343 -                      |                      |           |              |                |                        |
| Maturing through: November 1, 2022                 | 3.80%                      | \$66,720                        | \$ 1,175,553         | \$ -      | \$ (41,561)  | \$ 1,133,992   | \$ 42,343              |
| Water System Improvements Series 2001              |                            |                                 |                      |           |              |                |                        |
| Amount of issue: \$1,250,000                       |                            | \$45,000 -                      |                      |           |              |                |                        |
| Maturing through: May 1, 2021                      | 4.66%                      | \$95,000                        | 1,170,000            | -         | (45,000)     | 1,125,000      | 45,000                 |
| Sewer/Water Improvements Bonds Series 2003         |                            |                                 |                      |           |              |                |                        |
| Amount of issue: \$6,745,000                       |                            | \$124,920 -                     |                      |           |              |                |                        |
| Maturing through: November 1, 2023                 | 4.06%                      | \$234,589                       | 3,370,335            | -         | (124,920)    | 3,245,415      | 124,920                |
| Note Payable to Bank - Water Main Extensions       |                            |                                 |                      |           |              |                |                        |
| Amount of issue: \$660,000                         |                            | \$45,000 -                      |                      |           |              |                |                        |
| Maturing through: June 1, 2011                     | 6.00%                      | \$65,000                        | 420,000              | -         | (40,000)     | 380,000        | 45,000                 |
| Note Payable to Bank - Water System Lease Purchase |                            |                                 |                      |           |              |                |                        |
| Amount of issue: \$340,000                         |                            | \$40,000 -                      |                      |           |              |                |                        |
| Maturing through: February 15, 2007                | 5.45%                      | \$45,000                        | 165,000              | -         | (40,000)     | 125,000        | 40,000                 |
| Total business-type activities                     |                            |                                 | \$ 8,849,777         | \$ -      | \$ (484,530) | \$ 8,365,247   | \$ 501,035             |

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

|           | Governmental Activities |           |            | Business-type Activities |              |               |
|-----------|-------------------------|-----------|------------|--------------------------|--------------|---------------|
|           | Principal               | Interest  | Total      | Principal                | Interest     | Total         |
| 2005      | \$ 25,641               | \$ 14,019 | \$ 39,660  | \$ 501,035               | \$ 333,449   | \$ 834,484    |
| 2006      | 26,606                  | 13,054    | 39,660     | 524,851                  | 315,111      | 839,962       |
| 2007      | 27,608                  | 12,052    | 39,660     | 541,176                  | 295,572      | 836,748       |
| 2008      | 28,647                  | 11,013    | 39,660     | 519,647                  | 275,845      | 795,492       |
| 2009      | 29,724                  | 9,936     | 39,660     | 530,971                  | 255,713      | 786,684       |
| 2010-2014 | 252,202                 | 8,817     | 261,019    | 2,312,705                | 967,236      | 3,279,941     |
| 2015-2019 | -                       | -         | -          | 1,890,545                | 569,431      | 2,459,976     |
| 2020-2024 | -                       | -         | -          | 1,544,317                | 152,391      | 1,696,708     |
| Total     | \$ 390,428              | \$ 68,891 | \$ 459,319 | \$ 8,365,247             | \$ 3,164,748 | \$ 11,529,995 |

### Note 8 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for medical benefits, participates in the Michigan Municipal Underwriters for claims relating to property loss, torts, and errors and omissions, and carries workers' compensation insurance with the Michigan Municipal League. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

# **Charter Township of East Bay**

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## **Notes to Financial Statements December 31, 2004**

### **Note 9 - Defined Contribution Pension Plan**

The Township provides pension benefits to all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by Manufacturer's Life Insurance Company, the Township contributes 11 percent of employees' gross earnings and employee contributions for each employee plus interest allocated to the employee's account are fully vested immediately.

The Township's total payroll during the current year was \$538,753. The current year contribution was calculated based on covered payroll of \$448,527, resulting in an employer contribution of \$49,388 and employee contributions of \$0.

### **Note 10 - Joint Venture**

The Township entered into a master sewer agreement effective July 1, 1987 through June 30, 2010 with the City of Traverse City, the Townships of Acme, Peninsula, and Garfield in Grand Traverse County, the Township of Elmwood in Leelanau County, and Grand Traverse County. This master sewer agreement defines the allocation of costs and establishes certain rights and responsibilities with respect to the wastewater treatment plant. Grand Traverse County is the owner of the treatment plant and the City of Traverse City is the owner of all the multi-user facilities. Ownership of the treatment plant will revert to the City of Traverse City when certain bonds issued by Grand Traverse County are retired.

The City of Traverse City is the exclusive manager of the plant for the benefit of itself and the Townships. As the exclusive manager, the City of Traverse City has the obligation to fully inform and advise the Townships as to the treatment plant's operation and the Townships shall have the right to comment on all matters connected with the administration of the plant.

Each participant in the joint venture pays an amount sufficient to cover their pro rata share of treatment plant costs. Each participant's pro rata share is determined by their volume of sewage treated in relation to total sewage treated at the plant.

The Township is responsible for debt service on the debt issues listed in Note 7 as determined biannually based upon the percentage of the Township's flow to the total flow through the treatment plant. For the biannual period ended December 31, 2004, the Township's percentage was 7.66 percent.



# **Charter Township of East Bay**

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## **Notes to Financial Statements December 31, 2004**

### **Note 10 - Joint Venture (Continued)**

The Township also contributes one mill of its Fire Fund tax levy to the Grand Traverse County fire department - Metro Division (Metro). Metro is a joint venture between the Township and Acme and Garfield Townships of Grand Traverse County. The Township's equity interest was 27.7 percent at December 31, 2004. This equity interest is adjusted annually and the 2004 equity interest balance is approximately \$858,000.

## **Required Supplemental Information**

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# Charter Township of East Bay

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2004

|   | Original<br>Budget | Amended<br>Budget | Actual             | Variance with<br>Amended<br>Budget |
|---|--------------------|-------------------|--------------------|------------------------------------|
| <b>Fund Balance - Beginning of year</b>     | \$ 134,696         | \$ 134,696        | \$ 134,696         | \$ -                               |
| <b>Resources (Inflows)</b>                  |                    |                   |                    |                                    |
| Property taxes                              | 274,237            | 274,237           | 258,049            | (16,188)                           |
| State sources                               | 823,313            | 823,313           | 658,056            | (165,257)                          |
| Fees and permits                            | 13,000             | 13,000            | 9,204              | (3,796)                            |
| Charges for services                        | 331,468            | 331,468           | 283,446            | (48,022)                           |
| Interest income                             | 6,000              | 6,000             | 2,247              | (3,753)                            |
| Other                                       | 10,700             | 10,700            | 24,443             | 13,743                             |
| Amounts available for appropriation         | 1,458,718          | 1,458,718         | 1,235,445          | (223,273)                          |
| <b>Charges to Appropriations (Outflows)</b> |                    |                   |                    |                                    |
| General government:                         |                    |                   |                    |                                    |
| Township board                              | 133,272            | 136,111           | 126,901            | (9,210)                            |
| Supervisor                                  | 51,562             | 52,029            | 51,938             | (91)                               |
| Elections                                   | 10,926             | 11,752            | 12,363             | 611                                |
| Assessor                                    | 102,722            | 103,450           | 103,285            | (165)                              |
| Clerk                                       | 70,682             | 73,093            | 72,778             | (315)                              |
| Board of review                             | 1,730              | 1,730             | 1,015              | (715)                              |
| Treasurer                                   | 76,233             | 77,470            | 74,041             | (3,429)                            |
| Township hall and grounds                   | 211,027            | 206,023           | 192,985            | (13,038)                           |
| Public safety:                              |                    |                   |                    |                                    |
| Sheriff patrol                              | 120,608            | 120,608           | 120,608            | -                                  |
| Planning                                    | 27,503             | 27,503            | 21,388             | (6,115)                            |
| Zoning                                      | 112,054            | 111,554           | 110,365            | (1,189)                            |
| Public works:                               |                    |                   |                    |                                    |
| Roads and highways                          | 60,000             | 50,000            | 17,685             | (32,315)                           |
| Street lighting                             | 13,500             | 13,500            | 11,528             | (1,972)                            |
| Compactor                                   | 124,094            | 126,194           | 88,041             | (38,153)                           |
| Recreation and culture                      | 43,840             | 63,497            | 53,548             | (9,949)                            |
| Insurance and other                         | 248,851            | 249,497           | 331,986            | 82,489                             |
| Capital outlay                              | 40,350             | 41,643            | 27,383             | (14,260)                           |
| Total charges to appropriations             | 1,448,954          | 1,465,654         | 1,417,838          | (47,816)                           |
| <b>Fund Balance - End of year</b>           | <b>\$ 144,460</b>  | <b>\$ 127,760</b> | <b>\$ (47,697)</b> | <b>\$ (175,457)</b>                |

# Charter Township of East Bay

## Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds - Fire Fund Year Ended December 31, 2004

|   | Original Budget   | Amended<br>Budget | Actual            | Variance with<br>Amended<br>Budget |
|---|-------------------|-------------------|-------------------|------------------------------------|
| <b>Fund Balance - Beginning of year</b>     | \$ 240,133        | \$ 240,133        | \$ 240,133        | \$ -                               |
| <b>Resources (Inflows)</b>                  |                   |                   |                   |                                    |
| Property taxes                              | 708,182           | 708,182           | 671,769           | (36,413)                           |
| Charges for services                        | 41,000            | 41,000            | 71,095            | 30,095                             |
| Interest income                             | 4,000             | 4,000             | 4,732             | 732                                |
| Other                                       | -                 | -                 | 161               | 161                                |
| Amounts available for appropriation         | 753,182           | 753,182           | 747,757           | (5,425)                            |
| <b>Charges to Appropriations (Outflows)</b> |                   |                   |                   |                                    |
| Public safety                               | 648,740           | 658,695           | 544,119           | (114,576)                          |
| Capital outlay                              | 54,500            | 153,345           | 117,313           | (36,032)                           |
| Total charges to appropriations             | 703,240           | 812,040           | 661,432           | (150,608)                          |
| <b>Fund Balance - End of year</b>           | <b>\$ 290,075</b> | <b>\$ 181,275</b> | <b>\$ 326,458</b> | <b>\$ 145,183</b>                  |

# Charter Township of East Bay

## Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds - Township Improvement Fund Year Ended December 31, 2004

|   | Original Budget  | Amended<br>Budget | Actual           | Variance with<br>Amended<br>Budget |
|---|------------------|-------------------|------------------|------------------------------------|
| <b>Fund Balance - Beginning of year</b>     | \$ 49,998        | \$ 49,998         | \$ 49,998        | \$ -                               |
| <b>Resources (Inflows)</b>                  |                  |                   |                  |                                    |
| Interest income                             | 900              | 900               | 946              | 46                                 |
| Franchise fees                              | 33,160           | 33,160            | 38,072           | 4,912                              |
| Amounts available for appropriation         | 34,060           | 34,060            | 39,018           | 4,958                              |
| <b>Charges to Appropriations (Outflows)</b> |                  |                   |                  |                                    |
| Insurance and other                         | -                | -                 | 2,128            | 2,128                              |
| Capital outlay                              | 452,425          | 448,425           | 379,323          | (69,102)                           |
| Debt service                                | -                | -                 | 39,660           | 39,660                             |
| Total charges to appropriations             | 452,425          | 448,425           | 421,111          | (27,314)                           |
| <b>Other Financing Sources -</b>            |                  |                   |                  |                                    |
| Issuance of debt                            | 415,265          | 415,265           | 415,265          | -                                  |
| <b>Fund Balance - End of year</b>           | <b>\$ 46,898</b> | <b>\$ 50,898</b>  | <b>\$ 83,170</b> | <b>\$ 32,272</b>                   |

# Charter Township of East Bay

## Note to Required Supplemental Information Year Ended December 31, 2004

### Note - Budgetary Information

**Budgetary Information** - The annual budget is prepared by the Township clerk and adopted by the Township board; subsequent amendments are approved by the Township board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at December 31, 2004 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

Annual budgets are adopted on a consistent basis with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. Budgets were adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund budget and Major Special Revenue Fund budgets as adopted by the Township board is included in the required supplemental information.

This comparison includes expenditure budget overruns. A comparison of the actual results of operations to the Nonmajor Special Revenue Fund budget as adopted by the Township board is available at the clerk's office for inspection.

During the year, the Township incurred expenditures in the Township Improvement Fund, which were in excess of the amounts budgeted, as follows:

|  | Budget     | Actual     |
|--|------------|------------|
| General Fund - Insurance and other       | \$ 249,497 | \$ 331,986 |
| Township Improvement Fund - Debt service | -          | 39,660     |

May 25, 2005

To the Township Board  
Charter Township of East Bay

In planning and performing our audit of the financial statements for the Charter Township of East Bay for the year ended December 31, 2004, we considered the Township's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Township's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above.

## **MATERIAL WEAKNESSES**

**General Ledger** - The trial balance in the Township's general ledger system did not balance individually, by fund or in total for the Township. We were unable to determine the exact cause of this imbalance. We also found that, in the past, the audit adjustments had not been recorded in the general ledger. This resulted in inaccurate financial information during the year for use by the Township Board and management. The software has the ability to utilize an "audit adjustment period" to record the audit adjustments before completing a full close of the fiscal year. This is normally identified as "period 13."

We noted that all individual cash receipts are recorded using a general journal entry. The software has a cash receipts module that currently has not been utilized. This module should be activated to produce easier and reliable cash receipt application.

We recommend a continuous review of the trial balance on a monthly basis to ensure it is in balance. In addition, we also recommend using the "period 13" function and cash receipt module to increase the reliability of information maintained by the Township. Finally, we recommend that journal entries be approved by either the Treasurer or Supervisor before the Clerk posts to the general ledger.

**Bank Reconciliations** - The bank reconciliation is prepared by the Treasurer, but it is not reconciled to the general ledger. Instead, it is reconciled to the Treasurer's cash Excel spreadsheet that tracks cash inflows and outflows. There has been no verification that all cash receipts and disbursements are properly and completely reflected in the general ledger system.

A process must be put in place to verify, at least monthly, that all cash received and disbursed by the Treasurer for property taxes, special assessments, and general enterprise fund activity agrees with the cash activity posted to the general ledger by the Clerk. This will require constant communication between the Treasurer and the Clerk to ensure that 1) all activity is appropriately recorded in the general ledger and 2) the bank reconciliation agrees to the general ledger cash balance at month end. When the bank reconciliation is completed, the Treasurer should sign off and date the reconciliation for proof of timely reconciliation. In addition, the bank reconciliation process is also a time to review the outstanding check list. We found a check on the outstanding list for \$2,682.20 to Traverse City Area Public Schools dated April 7, 2004. This check should be reviewed and reissued to the school district, unless otherwise paid.

**Reconciliations** - A reconciliation has not been performed between the Treasurer and Clerk for cash flow activity. This is critical because one account is used for property taxes and special assessments, Compactor Station activity, and Fire Department ambulance fees, and general cash disbursements. The absence of this reconciliation could result in a material misstatement to the financial statements that would not be detected timely.

The Township must create procedures to initiate communication and reconciliation between the Treasurer, Clerk, Fire Department and Compactor Station. We recommend the Fire Department periodically (at least quarterly, if not monthly) receive general ledger detail from the Township for reconciliation to the Fire Department's records for appropriate recording of revenue, disbursements and classification of disbursements, in addition to reviewing the available cash restricted for the Fire Department's use.

**Compactor Station** - We found no internal controls over the cash received at the Compactor Station. Cash is taken to the Compactor Station's employee's home at day's end, tracked by hand on a calendar, and register tapes are not reconciled to the cash received.

The revenue generated by the Compactor Station is a significant amount, and controls must be put in place to protect the Township residents' cash. These required controls must provide for reliable cash tracking and reconciliation. The cash register should be fully utilized through reconciliations with the tape total. Cash should be deposited nightly through a lockbox. A reconciliation between cash received and the vendor pickup load should be done with each pickup by the disposal service. Other means of tracking revenue could be implemented, such as a punch card purchased in advance. In addition, the Township could also add a sign stating "Please request a receipt" in order to promote additional cash tracking through receipts to the residents.



**Special Assessments** - We could not find a specific listing for the water and sewer special assessment receivable balances, and so were unable to individually identify the balance due from Township residents. We could not clearly determine if an individual special assessment had been prepaid or was delinquent due to 1) the commingling of funds with other enterprise funds, and 2) poor use of the due to/from other funds accounts as a result of the commingling. The Township has received conflicting information from the Treasurer and another individual involved with the process.

A full review of the special assessment activity over the years could help determine the true status of all special assessments and a general reconciliation with detailed reports to the Board would further communicate activity of these funds. We also recommend the Township communicate with the County to determine if Special Assessments could be added to the tax roll and shift the responsibility for collection to the County.

## **REPORTABLE CONDITIONS**

**Check Numbers** - During control testing, we found check numbers for cash disbursements in the general ledger do not always agree with the check number cashed by the bank. We reviewed check numbers via the copies provided with each monthly bank statement and found numerous inconsistencies. A possible reason for some of these inconsistencies could be issues with the general ledger system in printing checks and identifying the correct check number printed. It is a necessity to have accurate records reflecting the true activity that is occurring.

A review of the general ledger software is required to help resolve this problem. In addition, before sending the checks out for payment, the Clerk should verify that the check numbers agree from the printed checks to the general ledger system.

**Sick and Vacation Records** - The Township was unable to produce a report that showed the sick and vacation activity for 2004. For audit purposes, there is no liability at the end of the year required to be recorded, due to the Township's policy that any paid time off awarded is "use it or lose it" as of the end of the year. However, for control testing, we were unable to determine if controls are in place for proper payment of personal days. The software appears to be set up to only show the current open year's (2005) activity and could not produce a report from the audited year 2004. Upon review of all 2004 payroll reports, we found that the system only reports time paid for sick and vacation for hourly employees. The salaried employees only show the salary amount without the break-out between personal days/hours and normal salary.

The implementation of outsourcing the payroll function will alleviate this issue. The outside payroll processor will track sick and vacation time used for all employees.

**Expenditure Review** - During the audit, we noted several expenditures coded to an incorrect expenditure account. A general review of cash disbursements for classification between expenditure accounts and/or departments has not been done at the Township. Due to the budgets that are adopted, it is very important that expenditures be classified properly to show where the Township resident's property taxes, state shared revenue, and various other revenue sources are being spent.

We recommend a process be implemented to allow the Supervisor the ability to view (not make changes) general ledger detail to perform a review function of expenditure classifications.

## **OTHER ITEMS**

**Budget Deficit - General Fund** - The General Fund resulted in a fund balance deficit as of December 31, 2004. The financial statements show negative fund balance. The Township should make sure that a deficit elimination plan is filed with the State of Michigan.

**Payroll** - Payroll is paid including a day that has not yet been worked. Employees are asked to estimate what they'll work that day and then it may or may not be adjusted in the next pay period.

We recommend that the Board review how the pay-period is set up and change the pay period to include a one-week lag, in order to reduce tracking and extensive adjustments to payroll.

During control testing, we found that the payroll amounts post to cash in gross amounts versus net amounts (the net amount represents the actual paycheck that clears cash for each employee). The information posting to the cash account is then reversed and adjusted various times in order to possibly reduce cash correctly. We were unable to determine which checks actually reduced cash, due to the system not posting payroll check detail. We believe that this is a problem with the general ledger system.

We recommend that the Township contact the vendor to help correct it. Due to the extent of payroll issues, we support the Board's 2005 decision to hire an outside payroll processor to take over the payroll system, which will save time and money for the Township.

**Bank Accounts for Cash** - The Township utilizes one cash account for the General Fund, Fire Fund, Trust and Agency Fund, and Lite and Road funds, including all payroll activity. One cash account is used to track all activity for sewer, water, and special assessments.

We recommend separate cash accounts for the Fire Fund, payroll (sweep account) and special assessments. This will provide additional control over tracking restricted cash at the Fire Department, separate payroll from general disbursements, and be a reliable means of tracking special assessments.

**Form L-4029** - This form is required to be submitted to the County and signed by the Township's assessor. We requested this form for 2004 and were unable to obtain a copy from the Township. We recommend the Township keep a copy of this form for their records and for audit purposes.

**Budgets** - Each year, before the beginning of the next fiscal period, the Township should adopt a budget for the General Fund, Fire Fund, and Township Improvement Fund at the activity level instead of account detail level. The budget is required to include a beginning Fund Balance for each fund with a calculated ending Fund Balance based on the budgeted revenues and expenditures. The budgets should be formalized, presented to the Board, and included in the Board packets.

**Special Assessment Budgets** - Each year the Township Clerk budgets for incoming special assessment collections of cash as revenue. However, that cash is not considered revenue when collected, rather it is a decrease to the special assessment's receivable. The Township should discontinue this practice in the special assessment funds and only budget for interest payments related to special assessments.

**Checks to "Various Township Persons"** - During review of the general ledger, we found multiple checks addressed to "various township persons" under one check number. This check number did not correspond to the check number, vendor name, or amount on the bank statement. Upon further inquiry and review, we found that this entry in the general ledger represented multiple checks issued to a number of individuals for various services performed. We found that a number of manual checks were issued for payment of services and then the total of these checks was entered into the general ledger as one check addressed to "various township persons." This process does not properly track the actual activity occurring.

We recommend the Township set up vendors for each individual/company to which the Township makes payments for proper documentation. In addition, this would require the Township to have a Form W-9 on file for each individual/business for tax purposes. This process would ensure that the Township is protected and would have the information to issue a Form 1099 (see additional comment on page 7).

**Fixed Asset Schedule** - The Township adopted GASB 34 as of January 1, 2004. GASB 34 requires the Township to track and report assets that have been capitalized under the Township's capitalization policy. The Township previously had a general fixed asset account group that listed the accumulated cost of fixed assets over the years maintained by the prior auditors. During 2004, a physical count of all assets owned by the Township was conducted and a schedule created. We reviewed the capital asset schedule noting that the listing included items under \$1,000 and included assets owned by the Fire Department. We have compiled a more accurate list of assets that will be provided to the Township. With this list, we recommend the Township track all purchases of capital outlay over \$1,000 to show as additions for each year going forward and any disposals of assets already on the list.

**Board Minutes Documentation** - The Township's 2004 board minutes document cash disbursements approved without noting the check range of actual checks approved by the Board. We recommend, for additional control, the Board document the check range and total dollar amount approved at the board meetings. During 2005, we noted that the board minutes began to document specific warrant ranges and we support this procedure.

**Accounts Payable** - The accounts payable general ledger balance was not accurate as of December 31, 2004. This was primarily due to checks issued during 2005 that related to 2004 expenses that were backdated in the system to reflect the expenditure in the proper period. The general ledger's accounts payable module is set up to handle this activity. At the time ordered goods or services are received, the Clerk should input the invoice into the accounts payable module to record the liability and the expenditure. The invoice should be matched with the purchase order and receiver (if goods received) to create an accounts payable document package. Once the payable is in the system and due, the Clerk can print the checks for signing, which will then relieve accounts payable and reduce cash. This will not require backdating, since the goods or services will be expensed when received, versus when paid, for proper accrual and matching basis.

**Manual Checks** - There were a number of manual checks issued from the Township during 2004. We recommend that manual checks not be used at the current time, until other matters can be resolved. If manual checks become necessary, we recommend the Board institute a policy to include required approval by the Supervisor and Clerk before they can be issued.

**Policies/Procedures** - We recommend the following be created/requested by the Board:

- ACH/electronic transfer policy - Township should set up this policy as required by the State of Michigan.
- Voided check retention - Township should maintain the original voided checks in the vault.
- Banking responsibilities – The Township should identify and assign banking capabilities to specific individuals to complete wire transfers, sign checks, open new accounts, etc.
- Personnel manual – The Township should document all procedures in place and job responsibilities.
- Personal expenses policy/clarification – The Township should document the personal expenses policy and should be included in the personnel manual.
- Policy explaining that all payroll checks be directly paid to the employee – The Township should also document this policy; and it also should be included in the personnel manual.

**Form 1099s** - We recommend that each January, the Clerk print a report by vendor in order to determine which vendors should be sent a Form 1099 for their activity during the year. A Form 1099 is required to be sent to all unincorporated vendors (individuals, partnerships, etc.) providing a professional service that were paid \$600 or more during the year by the Township.

**Bank Account Signers** - The Township should remove the Clerk's name from all Township bank accounts. The Board should also inform the bank that the Clerk no longer has authority to disburse funds from the Township accounts. The Clerk's statutory duties include preparation, but not issuance, of Township checks. It is the Treasurer's responsibility to issue checks.

**Credit Cards** - Use of Township credit cards should be discontinued, with the exception of the gas card. Expense reports, with supporting receipts should be submitted to the Township Board for approval or expense reimbursement. These could be reviewed in advance by the Supervisor with approval recommended on each month's consent calendar of the Township Board.

**Dual Signatures** - The Township Board should designate a second signature on all Township checks, to include the Supervisor for convenience. All accounts payable checks and supporting documentation (purchase orders, invoices, etc.) should be given to the designated signatory for review before furnishing his/her signature on the checks. The authorized checks should be given to an individual for mailing that is not involved in the accounts payable process.

**Property Tax Cash Receipts** - The Township Supervisor should receive a daily listing of cash receipts from the tax roll software and the bank deposit slip, to be matched to the deposits on the monthly bank statements.

**General Ledger Detail** - The general ledger software should be moved to the network in order to allow the Supervisor and Treasurer access to the financial information. They should have access to view the entire general ledger. Access to edit the general ledger should be limited to only those modules necessary to perform their statutory duties.

This report is intended solely for the information and use of the Township Board, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**PLANTE & MORAN, PLLC**

A handwritten signature in cursive script that reads "Sharon L. Vargo".

Sharon Vargo, CPA  
Partner

C: Glen Lile, Supervisor  
Debi Watson, Treasurer